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ABSTRACT

Since the formal organization of the Michigan Library Consortium, its financial support has come through membership fees and a grant from the Michigan State Library from Title III funds. The financing of the consortium is already a complex operation and will become even more complex as new programs are undertaken, since funds have been accepted for specific purposes which must be respected. Another method of financing the consortium is proposed here with the specific example of participation in the Ohio College Library Center (OCLC). OCLC in its financing arrangement has set up an organization to reduce overhead costs and to avoid cash flow problems. The former must be assumed by the consortium. The consortium should follow the wisdom of OCLC in the latter. (Author/SL)

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MICHIGAN LIBRARY CONSORTIUM

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PAPER NO. 3

THE FINANCING OF THE MICHIGAN LIBRARY CONSORTIUM

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THE FINANCING OF THE

MICHIGAN LIBRARY CONSORTIUM

The cost of organizing the Michigan Library Consortium is all but incalculable because it was accomplished through contributed effort and indirect support by member institutions. Since the formal organization of the Consortium, membership fees and a grant from the Michigan State Library from Title III funds have been received. A fourth method of financing the Consortium is proposed here with the specific example of participation in the Ohio College Library Center. The financing of the Consortium is already a complex operation and will become even more complex as new programs are undertaken. No further comment will be made about the first method of financing since it will have to continue to be a necessary and integral part of the Consortium. New programs and changes will come about most effectively if they arise from the effort of individuals rather than imposed by a bureaucratic structure. The complexity arises over the fact that the funds have been accepted for specific purposes which must be respected. Careful accounting will have to be rendered for the Consortium to maintain the status of a tax free agency.

MEMBERSHIP FEES

The By-Laws of the Consortium state that membership fees and assessments can not be altered without the permission of the Trustees, that is, the Members. It should be pointed out that this literally means each Member - an individual Member is not bound by a majority vote of the Trustees in this matter. Any alteration in membership fees voted by the Trustees can be vetoed by an individual Member by withdrawal from the Consortium by simply not paying the fee. The By-Laws also state that "dues, assessments or contributions may be imposed in different amounts or portions, or upon a different bases upon Members." The Membership Committee has interpreted these aspects of the By-Laws to mean that membership entitles an institution to participate in all formal meetings, committees and other communication devices that the Consortium may use to further its objectives. The Consortium may perform various services, but these services are to be "contracted" for separately according to some schedule agreed upon by the Trustees. In other words each program is to be separately financed. This approach has the support of the Executive Council and the Program Development Committee. It would appear that the development of the Consortium suggests that the membership fee is to be used only for the overhead costs of communication. The content of what must be communicated is derived from programmatic activity which is supported through other means. This definition of the rights of membership and the support by membership will only allow the Consortium to survive if there are a sufficient number of viable programs

to supply the funds to carry out the necessary organizational work. It must be remembered that the Consortium is an agency like any other of its Member constituents. It has to have a bureaucracy like its Members in order to function and to accomplish the stated objectives. Unlike most of the Member agencies, the meetings to define, study or examine operations may require days of planning to gather the Members some of whom are 800 miles apart. The Consortium, if it must function through persuasion and performance, will have to carry out a great deal of staff work to arrive at even ordinary decisions that could be resolved by a simple memo from a Director's Office of a Member institution. In any event, it is to the self interest of each Member to promote financially viable programs on which the logistics and communications of the Consortium can be financed because they exist and cost just as must if programs are working or whether the Consortium serves only as a communication forum.

Table I lists the membership fees received from the charter Members of the Consortium and the renewal of membership as of 1 April 1975. The expenditures of the Consortium Office made against membership fees during the time the Consortium Office was at Michigan State University were $783.01.

TITLE III GRANT

In April 1974 an application was made in behalf of the Consortium by the Chairman, Richard E. Chapin, to the Michigan State Library for Title III funds. The basis for the application was the Consortium was suitablely organized to permit access to the data base support by the Ohio College Library Center for its members. The application was submitted with the understanding that the cost of the use of the OCLC data base, once the Consortium members were connected via telecommunications, could be supported by the members. The Title III funds were to be used to cover start up costs and organizational costs. The Consortium also needed funds to continue other cooperative efforts. There are cooperative programs in existence that could be extended and new ones that need to be formed which would be of benefit to the library agencies throughout the State and hence to all of the citizens of the State.

The granting agency was generous in its support in that a grant was given in May 1974 without the need for any precise description of how the money was to be expended. It was understood that the Consortium should use funds to implement programs. The grant was not given to undertake a feasibility study which would create a bureaucracy and an overhead that would continuously seek support for its maintenance More directly the purpose was to provide seed money so that the Consortium could find the mechanisms to support an office as programs developed. Within this spirit the Executive Council approved the budget from this grant as given in Table 2.

If twenty-five members should be connected up to OCLC by October 1975, the Consortium's treasury will be bankrupt. There will be no money to assist the additional members to join. More important, the Consortium Office would not have the means to maintain itself to carry the overhead of maintaining access to OCLC. Not only must bills be paid

in the name of the Consortium to OCLC, but there must be staff available to function as an intermediary between individual members of the Consortium and OCLC to deal with the technical changes that will occur as the OCLC data base expands and OCLC extends its services to cover additional library operations.

It is hoped that the grant from Title III funds can be secured for an additional year to make it possible to increase the number of members connected to the OCLC data base and to establish the Consortium OCLC Office on a firm basis.

MAINTENANCE OF OCLC PROGRAM OVERHEAD

Appendix I gives a list of OCLC charges in affect as of 1 April 1975. There are several aspects of these charges to access the OCLC data base that are not reflected in this schedule.

1. OCLC can list such low charges because the overhead costs of utilizing, monitoring, and altering the profiles for use are given to the Consortium to do.

2. OCLC deals only with the Consortium, that is all charges incurred by a member are the responsibility of the Consortium. It is necessary, if the Consortium is to remain a fiscally responsible agency, to have the funds to make payments to OCLC for services rendered as well as to have a contingency fund for possible cash flow problems.

3. OCLC has set up a schedule which allows for discounts for estimated use of services if paid in advance. If, however, a Consortium member underestimates use, charges will be made by OCLC at the standard rate plus an assessment of a surcharge. What must be emphasized here is that the Consortium must have funds on hand to pay such charges when due. The turn around time of double invoicing and double payment through the Consortium takes time and surcharges may result.

4. The cost of cards are billed each month and must be paid by the Consortium within 30 days or else a charge of one percent per month is made. It should be remembered that OCLC is a computer base operation and the computer makes no slip ups in cases of simple interest charges. This one percent per month is the usual department store rate of eighteen percent per year.

OCLC in its financing arrangements has set up an organization to reduce overhead costs and to avoid any cash flow problems. The former must be assumed by the Consortium. The Consortium should follow the wisdom of OCLC in the latter.

There are two costs involved, the overhead and technical maintenance. No other consortium or network has costed these factors out in its operation and, therefore, only estimates can be given here of what it will cost the Consortium to maintain its hook up with OCLC. It does not seem

unreasonable to assume that a professional librarian or equivalent will have to spend at least one day per week monitoring accounts, undertaking correspondence with Consortium members, participating in meetings with the Executive Council and other groups and in general supervising the communication and paper flow. This professional will have to have at least one week per month of clerical staff to record and invoice members and to reconcile the accounts in and out and to maintain the appropirate files for each member. Also another one day per week will be used to maintain correspondence files, arrange for meetings and other duties that will support the Consortium Office overhead operations.

The technical side of maintaining the OCLC part of the Consortium will require at least a half time Consortium Coordinator who will have to have at least a quarter time Office Assistant to arrange correspondence and other communication matters for every 10 institutions participating in OCLC. The Consortium Coordinator will have to travel to Columbus at least once per month and throughout the State to give members assistance to hold workshops and seminars.

The personnel costs can be calculated on a per hour basis using a 213 day work year which is equivalent to about 1600 hours per year. These days are arrived at by subtracting vacations, holidays and average sick days from the 260 work days of the year. If a clerical salary can be calculated at $7,200 a year including fringe benefits and professional staff $17,000 per year including fringe benefits then the cost for clerical assistants per hour is $4.50 and a professional at $10.60. If there are 10 members or less participating in OCLC, then the figures of Table 5 represents a minimum budget to maintain the OCLC program. If the membership participation goes over 10, then at least the staff time for the Consortium Coordinator and supportive staff will have to double. The cost will, therefore, be $34,500 rather than the $24,900 given in Table 5.

OCLC SUPPORT PROPOSAL

Since OCLC charges the Consortium per use, a way of financing the program is to add a surcharge to each use by a participating OCLC Member. Table 4 shows the surcharge per hit that would have to be used to maintain an income of $25,000 to support the OCLC part of the Consortium Office. Column (1) is the surcharge added to the first time hits in Column (2) to get $25,000; Column (3) gives the OCLC charges without discount; if estimated costs are paid in advance at the maximum discount, the amount owed to OCLC is given in Column (4) for the number of hits listed in Column (1). The amount given in Column (5) is what would have to be collected by the Consortium in advance of OCLC use to have a $25,000 income. The final Column (6) is the cost per hit per member at the surcharge rate given in Column (1) assuming the rate of use given in Column (2).

Table 5 is the same kind of calculation assuming an annual on OCLC Consortium Office budget of $35,000 per year.

RECOMMENDATION

If Title III funds are again granted for 1975-76, the cost of start up will be assured through October 1976. If hook up with OCLC begins in October 1975, maintenance costs will begin at that time. Since it is unknown primarily which institutions will join at what time and, therefore, how many first-time hits will be generated between October 1975 and October 1976, it is recommended that the Consortium receive from OCLC participating Members an amount equivalent to $2.00 per first-time hit (13¢ surcharge). A transfer of 11¢ per hit by each Member will be transferred to the Consortium OCLC operating account monthly according to first-time hits made during the past month. At semi-annual intervals an adjustment will be made to transfer more to the operating account if needed according to the number of first-time hits in the six month period. The unexpended balances remaining at the year's end will be used for the following year's estimated advance payment.

Table 1

Membership Fees Paid
1975

Name of Institution	1 April 1975	Name of Institution	1974
Adrian	X	Adrian	X
Albion	X	Albion	X
Alma	X	Alma	X
Andrews		Andrews	X
Aquinas	X	Aquinas	X
Bay De Noc		Bay De Noc	X
Calvin	X	Calvin	X
Central	X	Central	X
Detroit Public Library	X	Detroit Public Library	X
Eastern	X	Eastern	X
Ferris	X	Ferris	X
Flint Public Library	X	Flint Public Library	X
Grand Rapids Public Library System		Grand Rapids Public Library System	X
Grand Valley	X	Grand Valley	X
Hillsdale	X	Hillsdale	X
Hope		Hope	X
Jackson Community College	X	Jackson Community College	X
Jackson County Library	X	Jackson County Library	X
John Wesley		John Wesley	X
Kalamazoo County Library	X	Kalamazoo County Library	X
Kalamazoo Valley Comm. College	X	Kalamazoo Valley Comm. College	X
Kellogg Community College	X	Kellogg Community College	X
Lake Superior	X	Lake Superior	X
Lansing Community College	X	Lansing Community College	X
Lawrence Tech.		Lawrence Tech.	X
Madonna		Madonna	X
Marygrove	X	Marygrove	X
Mercy	X	Mercy	X
Michigan State Library	X	Michigan State Library	X
Michigan State University	X	Michigan State University	X
Michigan Tech.	X	Michigan Tech.	X
Monroe County Library System	X	Monroe County Library System	X
Nazareth		Nazareth	X
Northern	X	Northern	X
Oakland Community College		Oakland Community College	X
Oakland Universtiy	X	Oakland University	X
Olivet	X	Olivet	X
St. Mary's	X	St. Mary's	X
Schoolcraft Comm. College		Schoolcraft Comm. College	X
Siena	X	Siena	X
Spring Arbor	X	Spring Arbor	X
Suomi		Suomi	X
University of Detroit	X	University of Detroit	X
University of Michigan		University of Michigan	X
Wayne County Comm. College		Wayne County Comm. College	X
Wayne County Fed. Lib. System	X	Wayne County Fed. Lib. System	X
Wayne State University		Wayne State University	X
Western	X	Western	X
West Shore		West Shore	X
Willard Library System		Willard Library System	X

Table 2

BUDGET ALLOCATIONS

Ocotber 1974 - September 1975

Consortium Office		OCLC Coordinator	
Salaries (including fringe benefits)	$12,000		$10,000
Assistant Director	7,500	Coordinator	8,000
Secretarial	4,500	Secretarial	2,000
Sub Total			
Travel (including Executive Council)	3,000		3,000
Postage	800		200
Supplies and Copying	2,400		600
Telephone	600		300
OCLC Installation for 30 institutions		Communication hook up @ $300.00 each (25)	7,500
		Pack definition tables @ $300.00 each (25)	7,500
Sub Total	18,800		29,000
Overhead (5% of expenditures)	940		1,455
TOTAL	$19,740		$30,555
GRAND TOTAL			$50,295

Table 3

COST OF MAINTAINING OCLC COMPONENT
OF THE
CONSORTIUM OFFICE PER YEAR

Overhead Salaries		
1 day per week professional staff = 52 days x 7.5 hours = 390 hrs. x $10.60/hour =	$ 4134.00	
1 day per week Office Assistant staff = 52 days x 7.5 hours = 390 hrs. x $4.50/hour =	1755.00	
5 days per month Office Academic staff for library = 60 days x 7.5 hrs. = 450 hrs. x $4.50/hour =	2025.00	
Salary Subtotal	$ 7914.00	
Overhead travel	900.00	
Postage, supplies, communications, etc.	1200.00	
Overhead Subtotal		$10,014.00
OCLC Maintenance		
105 days of Consortium Coordinator x 7.5 = 788 hrs. x $10.60 =	8347.00	
1 day per week Office Assistant staff = 52 days x 7.5 hrs. = 390 x $4.50/hour	1755.00	
Salary Subtotal	$10,102.00	
Consortium Coordinator travel	2400.00	
Postage, supplies, etc.	1200.00	
OCLC Maintenance Subtotal		$13,720.00
Total		$23,716.00
Overhead (5% of expenditures)		$ 1185.00
GRAND TOTAL		$24,901.00

Table 4

SURCHARGE ON NUMBER OF FIRST TIME HITS
TO PRODUCE $25,000 PER YEAR

Surcharge (1)	Number of Hits (2)	OCLC 1st Time Charge (3)	Less 6% Discount (4)	OCLC plus Surcharge (1) + (4) (5)	Cost per Hit (6)
10¢	250,000	$467,500	$439,450	$464,450	$1.86
11	227,273	425,000	399,500	424,500	1.87
12	208,333	389,583	366,208	391,208	1.88
13	192,308	359,616	338,039	363,099	1.89
14	178,571	333,928	313,892	338,892	1.90
15	166,666	311,665	292,965	317,965	1.91
16	156,250	292,187	274,656	299,656	1.92
17	147,059	275,001	258,500	283,500	1.93
18	138,888	259,720	244,138	269,198	1.94
19	131,579	246,053	231,290	256,290	1.95
20	125,000	233,750	219,725	244,725	1.96
21	119,048	222,619	209,262	234,262	1.97
22	113,637	212,500	199,750	224,750	1.98
23	108,696	209,260	191,065	216,065	1.99
24	104,167	194,792	183,104	208,104	2.00

Table 5

SURCHARGE ON NUMBER OF FIRST TIME HITS
TO PRODUCE $35,000 PER YEAR

Surcharge	Number of Hits	OCLC 1st Time Charge	Less 6% Discount	OCLC plus Surcharge	Cost per Hit
10¢	350,000	$654,500	$615,230	$650,230	$1.86
11	318,182	595,000	559,300	594,300	1.87
12	291,667	545,417	512,692	547,691	1.88
13	269,231	503,462	473,254	508,254	1.89
14	250,000	467,500	439,450	474,450	1.90
15	233,333	436,333	410,153	445,153	1.91
16	218,750	409,062	384,519	419,519	1.92
17	205,882	385,000	361,900	396,900	1.93
18	194,444	363,611	341,794	376,794	1.94
19	184,211	344,474	323,805	358,805	1.95
20	175,000	327,250	307,615	342,615	1.96
21	166,667	311,667	292,967	327,967	1.97
22	159,090	297,500	279,650	314,650	1.98
23	152,174	284,565	267,491	302,491	1.99
24	145,833	272,708	256,345	291,345	2.00

APPENDIX I

OCLC CHARGES

EFFECTIVE December 1, 1974

This appendix is to be attached to and forms a part of the Agreement between OCLC and Michigan Library Consortium.

A. First-time use:		
Basic first-time use (without communications, terminal lease and service)	$ 0.904	per use
Inclusive first-time use (including communications, terminal lease and maintenance)	$ 1.87	per use
Tymnet charges:		
Log on	$ 0.50	each
Tymnet connect charges	$ 12.00	per hour
Basic first-time use	$ 0.904	per use
B. Monthly storage charge	$2200.00	per 100 million bytes
C. Catalog card production	$ 0.034	per card
D. OCLC 100 Display terminal:		
Purchase	$3700.00	each
Lease and maintenance	$ 155.00	per month
Terminal installation:		
Basic Plan (AT&T)	$ 137.50	
Inclusive Plan (AT&T and terminal)	$ 225.00	
E. OCLC 100 Display terminal maintenance	$ 39.00	per month
F. Start-up instruction, training and follow-up support services	$ 15.00	per hour plus travel expense
G. Instruction Manuals:		
On-Line Cataloging	$ 7.50	per manual
Design of Formats & Packs of Catalog Cards	$ 4.00	per manual
Both manuals	$ 10.00	per set
H. Processing of catalog profile questionnaires and pack definition		
Label formats:		
Initial start-up plus 30 days thereafter	$ 25.00	per hour (average total - $300.00)
Subsequent profile changes	$ 25.00	per hour
Standard catalog profile and catalog card format	$ 25.00	

APPENDIX I

I. Off-Line Services:

1. Accessions Listings:

140 Items or less	$ 10.00	minimum
141 Items or more	$ 0.075	per item
Changes in selected options	$ 15.00	per change

2. Magnetic tape, MARC II format of institutions catalog records:

Cost of tape, handling & delivery	$ 20.00	per tape
Credit for returned tapes	$ 5.00	per tape

Copying charge per record:

1 -1,000 Logical Records	$ 0.030	per record
1,001-5,000 Logical Records	$ 0.010	per record
5,001-50,000 Logical Records	$ 0.003	per record
50,001 and up Logical Records	$ 0.001	per record

The charges made and prices quoted are subject to change by OCLC at any time and purchase orders forwarded to OCLC will not be valid except upon acceptance by OCLC in writing.

All contracts of OCLC permitting options as to terminal acquisition, communications, service and modes of payment, shall become effective only upon acceptance in writing by OCLC of exercise of the respective options.